

Message Text

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PAGE 01 SEOUL 06012 190938Z
ACTION SS-25

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EXDIS
FOR HABIB AND GLEYSTEN

E.O. 11652: GDS
TAGS: MARR, MASS, KS, US
SUBJECT: SCM COMPENSATORY ACTION -- PRICING ISSUE

SUMMARY. UNC HAS RECEIVED INFORMAL ADVICE FROM PENTAGON THAT BASIS FOR PRICING OF 8TH ARMY DIVISION EQUIPMENT IS FY1978 REPLACEMENT COSTS. ON THAT BASIS, IT WILL BE IMPOSSIBLE TO TRANSFER TO ROKG SUFFICIENT EQUIPMENT TO MAKE CREDIBLE OUR PLEDGE TO SUPPORT MAINTENANCE OF ADEQUATE ROK DEFENSE CAPABILITY AFTER GROUND FICE WITHDRAWAL. END SUMMARY.

1. UNC HAS RECEIVED INFORMAL ADVICE THAT THE PRICING OF THE 8TH ARMY DIVISION WHICH MIGHT BE TRANSFERRED TO THE ROKS AT NO COST WILL BE BASED ON THE FY78 REPLACEMENT VALUE. IF THIS POLICY IS TO BE OUR OFFICIAL POSITION, THEN WE WILL NOT BE ABLE TO TRANSFER TO THE ROKG ALL THE EQUIPMENT THAT IS PROBABLY REQUIRED.

2. ROKG IS UNDER THE IMPRESSION THAT MOST OF THE EQUIPMENT NOW IN THE HANDS OF THE 8TH ARMY WILL BE TRANSFERRED TO THEM ON A NO-COST BASIS. WE RECOGNIZE THEIR HOPES ARE PROBABLY EXCESSIVE AND WILL HAVE TO BE SCALED DOWN. HOWEVER, AS WE UNDERSTAND IT, THE FY1978 REPLACEMENT VALUE

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OF "THE PRIORITY ONE" EQUIPMENT THAT A JOINT US-ROK WORKING GROUP HAS DETERMINED TO BE NECESSARY AND DESIRABLE FOR TRANSFER IS APPROXIMATELY \$830 MILLION. WHILE THIS FIGURE MAY BE A BIT INFLATED, IT STILL FAR EXCEEDS ANY POSSIBLE LEVEL OF NO-COST TRANSFER THAT IS NOW BEING DISCUSSED IN WASHINGTON. UNLESS WE FIND SOME OTHER BASIS FOR THE COSTING, ROKG WILL BE GREATLY DISAPPOINTED

WITH WHAT WE MIGHT OFFER, AND IT MAY NOT BE POSSIBLE TO INCLUDE EVEN THE MOST ESSENTIAL ITEMS.

3. THE ROKS WILL NOT REGARD U.S. PRICING POLICY AS GOOD FAITH IMPLEMENTATION OF U.S. ADMINISTRATION'S PLEDGE TO MAINTAIN ROK'S DEFENSE CAPABILITY SINCE IT COULD DEPRIVE THEM OF MAJOR ITEMS OF EQUIPMENT NOW IN KOREA, REMOVE THE TOOLS FOR MAINTAINING WHAT WE DO LEAVE, AND CHARGE FOR THE PACKAGE AS IF THE OLD ITEMS (SOME ACQUIRED 1960) WERE ACTUALLY NEWLY MANUFACTURED. IF THAT HAPPENS, IT MAY IN FACT BE DIFFICULT TO ARGUE THAT WE ARE MAINTAINING AN ADEQUATE DEFENSIVE POSTURE.

4. I FIND IT HARD TO RATIONALIZE THE USE OF FY78 AS THE BASIS FOR VALUING THIS EQUIPMENT. IT CANNOT REPRESENT THE VALUE OF THE EQUIPMENT TO BE TURNED OVER, SINCE THAT WAS PURCHASED PRIOR TO FY78 AND HAS BY THIS TIME GONE THROUGH MUCH WEAR AND TEAR. NOR CAN IT REPRESENT COST OF REPLACING THE EQUIPMENT TO BE PROCURED BY U.S. ARMY, SINCE THAT IS NOT LIKELY TO TAKE PLACE IN FY78 BUT RATHER DURING THE NEXT FOUR TO FIVE YEARS. IT SEEMS TO ME, THEREFORE, TO BE A COMPLETELY ARBITRARY BASIS WHICH WILL NOT SATISFY EITHER THE RECIPIENT OR THE PROVIDER.

5. THE QUESTION OF SPECIFIC ITEMS TO BE TRANSFERRED IS A COMPLEX ONE AND THE DECISION ON SOME ISSUES IS PROBABLY SECRET

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BEST LEFT TO FUTURE YEARS AS ACTUAL TURN-OVER TIME IS CLOSE AT HAND. IF WE ARE TO ACHIEVE OUR AVOWED PURPOSES AT SCM, WE CANNOT AFFORD TO GIVE EXCESSIVE WEIGHT TO COST FACTORS IN OUR CONSIDERATION OF THIS ISSUE. OUR DETERMINATION MUST BE MADE WITH A VIEW TO MEETING REASONABLE EXPECTATIONS OF THE KOREANS. I BELIEVE WE CAN DO THIS IF WE ESTABLISH SOME BASIC PRINCIPLES, NAMELY: (A) THAT THE EQUIPMENT WILL BE TRANSFERRED WITH THE ESSENTIAL MAINTENANCE CAPABILITY TO KEEP IT OPERATING AND (B) THAT THE PRICE WILL BE RELATED TO THE "CURRENT VALUE" OF THE EQUIPMENT (I.E., ORIGINAL COST MINUS DEPRECIATION AND NOT ON FUTURE COSTS TO THE UNITED STATES OF NEW EQUIPMENT). SINCE WE ARE CONTEMPLATING NEW LEGISLATION, PRESENT LEGAL AUTHORITIES NEED NOT BE BINDING NOR PRECEDENT SETTING.

6. IF AN ADEQUATE DECISION ON THE APPROPRIATE PRICING LEVEL CANNOT BE REACHED BEFORE SECRETARY BROWN'S DEPARTURE, I URGE THAT SECRETARY BE EMPOWERED TO NEGOTIATE THIS ISSUE WHILE HERE DURING THE SCM.
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Message Attributes

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Control Number: n/a
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Decaption Date: 22 May 2009
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